

Message Text

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ACTION NEA-10

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E.O. 11652: N/A
TAGS: EIND, IN
SUBJECT: NEW INDUSTRIAL POLICY

REF: A) NEW DELHI A 212; B) NEW DELHI 15811

1. SUMMARY: MINISTER OF INDUSTRY FERNANDES REVEALED THE GOVERNMENT'S NEW INDUSTRIAL POLICY STATEMENT TO PARLIAMENT ON DECEMBER 23. AS EXPECTED, IT GAVE MORE EMPHASIS TO THE DEVELOPMENT OF SMALL SCALE INDUSTRIES, BUT THE GENERAL REACTION HAS BEEN UNENTHUSIASTIC. END SUMMARY.

2. MINISTER FERNANDES SAID THAT THE MAIN THRUST OF THE JANATA'S INDUSTRIAL POLICY WILL BE THE QUOTE EFFECTIVE PROMOTION OF COTTAGE AND SMALL INDUSTRIES WIDELY DISPERSED IN RURAL AREAS AND SMALL TOWNS UNQUOTE. THE LIST OF PRODUCTS RESERVED FOR THE SMALL SCALE SECTOR HAS BEEN EXPANDED FROM APPROXIMATELY 180 TO 504 ITEMS. THE MINISTER SAID THAT IN EACH DISTRICT THERE WILL BE ONE AGENCY, THE DISTRICT INDUSTRIES CENTER, TO DEAL WITH ALL REQUIREMENTS OF
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SMALL SCALE AND COTTAGE INDUSTRIES. THE GOI WILL ALSO PROVIDE FINANCIAL INCENTIVES (E.G. CREDIT, MARKETING) TO SMALL UNITS. ACCORDING TO FERNANDES, SPECIAL ATTENTION WILL BE GIVEN TO THE "TINY" SECTOR - I.E. ENTERPRISES WITH INVESTMENT IN MACHINERY AND EQUIPMENT UP TO RS. 100,000 AND SITUATED INTOWNS WITH A POPULATION OF LESS THAN 50,000. THE GOI WILL NOT PERMIT ANY EXPANSION

IN THE WEAVING CAPACITY IN THE ORGANIZED MILL (LARGE SCALE) AND POWERLOOM (MEDIUM SCALE) SECTORS TO ENSURE AN ADEQUATE SUPPLY OF YARN FOR THE HANDLOOM SECTOR.

3. FERNANDES SAID THAT EXPANSION OF LARGE SCALE ENTERPRISES WILL BE GENERALLY LIMITED TO THE FOLLOWING INDUSTRIES: BASIC (E.G. STEEL, NON-FERROUS METALS, CEMENT, OIL REFINERIES); HIGH TECHNOLOGY; AND SECTORS ESSENTIAL FOR FUTURE ECONOMIC DEVELOPMENT (E.G. MACHINE TOOLS, ORGANIC AND INORGANIC CHEMICALS). NO FURTHER EXPANSION IN THE CAPACITY OF LARGE UNITS IN AREAS RESERVED FOR THE SMALL SCALE SECTOR WILL BE PERMITTED. THE MINISTER NOTED THAT LARGE PRIVATE SECTOR BUSINESS HOUSES WILL HAVE TO RELY ON THEIR OWN INTERNALLY GENERATED RESOURCES FOR FINANCING EXPANSION PLANS. HE ALSO, STATED THAT, WHILE LARGE HOUSES COULD CONTINUE TO GROW, THE GOI WOULD CLOSELY SCRUTINIZE THEIR PLANS TO PREVENT MONOPOLIES OR UNDUE MARKET CONCENTRATION.

4. IN ORDER TO ENCOURAGE MORE INDUSTRIAL DECENTRALIZATION FERNANDES ANNOUNCED THAT NO MORE LICENSES WILL BE ISSUED TO NEW UNITS WITHIN METROPOLITAN CITIES HAVING A POPULATION OF MORE THAN ONE MILLION OR IN URBAN AREAS WITH A POPULATION OF MORE THAN 500,000 (ACCORDING TO THE 1971 CENSUS). THE GOI WILL ALSO CONSIDER PROVIDING ASSISTANCE TO LARGE EXISTING INDUSTRIES WHICH WANT TO SHIFT FROM CITIES TO APPROVED LOCATIONS IN BACKWARD AREAS.
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5. REGARDING FOREIGN INVESTMENT, THE MINISTER SAID THAT THE FERA WILL BE STRICTLY ENFORCED, BUT THAT THERE WILL BE COMPLETE FREEDOM FOR THE REMITTANCE OF PROFITS, ROYALTIES AND DIVIDENDS AS WELL AS CAPITAL REPATRIATION FOR ALL APPROVED FOREIGN INVESTMENT. COMPANIES WITH DIRECT NON-RESIDENT INVESTMENT NOT EXCEEDING 40 PERCENT QUOTE WILL BE TREATED ON A PAR WITH INDIAN COMPANIES EXCEPT IN CASES SPECIFICALLY NOTIFIED UNQUOTE. HE NOTED, HOWEVER, THAT WHERE FOREIGN TECHNOLOGICAL KNOW-HOW IS NOT NEEDED EXISTING COLLABORATIONS WILL NOT BE RENEWED.

6. IN A FOLLOW-UP PRESS CONFERENCE S.S. MARATHE, SECRETARY OF INDUSTRIAL DEVELOPMENT, SAID THAT THE NEW INDUSTRIAL POLICY WAS EXPECTED TO BENEFIT THE 717,000 SMALL UNITS EACH HAVING AN INVESTMENT OF RS. 500,000 OR LESS. HE ALSO STATED THAT THE GOI HAD PREPARED A COMPLETE LIST (NOT YET MADE PUBLIC) OF INDUSTRIES WHERE FOREIGN COLLABORATION WILL BE TOTALLY BANNED.

7. COMMENT: THE NEW INDUSTRIAL POLICY IS ALONG THE SAME LINES AS THE INDUSTRIAL PORTION OF THE JANATA'S ECONOMIC

POLICY STATEMENT THAT WAS UNVEILED LAST NOVEMBER (REFS A AND B). IT ALSO IS NOT INCONSISTENT WITH THE RATHER GENERAL INDUSTRIAL POLICY RESOLUTION OF 1956 THAT IS STILL IN FORCE, ALTHOUGH SUCCESSIVE INDIAN GOVERNMENTS HAVE EMPHASIZED THE DEVELOPMZNT OF HEAVY INDUSTRY WITHIN THE FRAMEWORK OF THE 1956 RESOLUTION. THE LATEST ANNOUNCEMENT HAS AROUSED LITTLE ENTHUSIASM, PARTLY BECAUSE ITS PROVISIONS HAD BEEN GENERALLY ANTICIPATED. BUSINESS REACTION TO THE NEW POLICY HAS BEEN GENERALLY NEGATIVE AND PARTICULARLY CRITICAL OF THE STIPULATION THAT LARGE HOUSES WILL HAVE TO RELY ON THEIR OWN RESOURCES FOR FUTURE EXPANSION. PARTLY BECAUSE OF LOW PROFITS, RISING COSTS AND TIGHT CREDIT BUSINESSMEN ARE NOW RELUCTANT TO INVEST. THERE IS CONSIDERABLE SKEPTICISM ABOUT HOW EFFECTIVELY THE NEW POLICY WILL BE UNCLASSIFIED

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IMPLEMENTED.

8. THE DIFFICULTIES IN PROVIDING ADEQUATE SUPPLIES, CREDIT, MARKETING FACILITIES, ETC. TO SMALL UNITS ARE FORMIDABLE. IN MANY CASES LARGE FIRMS GENERATE BUSINESS FOR SMALLER ENTERPRISES, BUT THE GOI DOES NOT APPEAR TO HAVE RECOGNIZED SUFFICIENTLY THE IMPORTANT LINKAGES BETWEEN THE TWO SECTORS. INCREASED EMPHASIS ON THE SMALL SCALE SECTOR MAY SLOW DOWN THE RATE OF INDUSTRIAL GROWTH BECAUSE OF DISECONOMIES OF SCALE. SINCE INSUFFICIENT CONSUMER DEMAND IS NOW THE MAIN CONSTRAINT TO THE GROWTH OF BOTH SMALL AND LARGE INDUSTRIAL ENTERPRISES, THE FUTURE SUCCESS OF THE JANATA'S INDUSTRIAL POLICY WILL DEPEND MOSTLY ON THE DIFFICULT BUT VITAL JOB OF INCREASING THE RATE OF AGRICULTURAL GROWTH AND RAISING THE PURCHASING POWER OF INDIA'S RURAL MASSES. END COMMEFT.

9. COPIES OF THE TEXT OF THE INDUSTRIAL POLICY ANNOUNCEMENT AS WELL AS THE LIST OF PRODUCTS NOW RESERVED TO SMALL SCALE UNITS ARE BEING POUCHED. GOHEEN

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